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DDCI REMARKS ON LATIN AMERICA

AT WORLD BUSINESS COUNCIL

OCEAN REEF CONFERENCE

5 FEBRUARY 1986

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With the news headlines these days focused largely on terrorism in Middle Eastern and European airports, turmoil in South Africa, and military movements in the Mediterranean, it is all too easy for the public and the media to lose track of what's going on in Latin America. It's too easy to forget "America's Back Yard," which is so important to US business and strategic interests.

Latin America, as you know, is a vast and very diverse region politically, economically, and culturally. The region is now undergoing tremendous changes that threaten the stability of the region and long-term US interests there.

I think that, in broad terms, there are three major problems affecting that region today. These are economic stagnation and a crushing external debt; the growth of insurgency and terrorism; and -- to make matters worse -- Soviet and Cuban subversion and exploitation of the region's woes.

From the business perspective, the most significant issue clearly is Latin America's economic difficulties -- especially its huge and growing debt. Many of you are no doubt more familiar than I with the massive debt problems of Mexico and Brazil.

Let me focus....

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Let me focus for a few minutes on Latin American debt.

The magnitude of the problem is striking. Over one quarter of the total Third World external debt is accounted for by Brazil, Mexico, and Argentina. Throw in smaller debtors like Venezuela, Chile, Costa Rica, Jamaica, and some others, and the Latin American share of Third World debt approaches fifty percent.

> NOTE: Total debt of Brazil stands at $105 billion; Mexico $102 billion; Argentina $46 billion; Venezuela $33 billion; Chile $21 billion; and Peru $13 billion.

As you all know, there is nothing inherently wrong with debt. Indeed, nations normally require extensive borrowing to finance development. And in the early 70s, economic planners throughout Latin America were "bullish", and almost eagerly incurred debt. These economists anticipated that their countries would be able to repay creditors easily from steadily rising export earnings from oil, minerals, and foodstuffs.

Unfortunately, sharp reversals in the world economy torpedoed this strategy. General recession caused sales of Latin American commodity exports -- for example, coffee, sugar, and copper -- to fall rapidly beginning around 1980. Simultaneously, another runup in world oil prices hurt oil importers like Brazil, Chile, and countries in the Caribbean Basin. Falling exports and expensive imported oil jacked up their external debts still further.

While the ability ....

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While the ability of debtor countries to earn foreign exchange was rapidly eroding, international lenders perceived a growing degree of risk. Naturally, they began cutting back on funds for debt-servicing. Borrowers now were caught with debts that could not be repaid, and called for help.

The United States Government, in collaboration with the IMF and certain other governments and banks, began dealing with debt readjustments on a case-by-case basis. This process involves five key elements -- internal economic adjustments by the debtor countries; new commercial bank financing; government loans; IMF loans; and reliance upon global economic recovery.

As you can imagine, the "medicine" was initially painful. As governments imposed austerity programs, unemployment and urban unrest grew and inflation jumped while capital fled the region.

The USG strategy, however, began showing results in late 1983. Exports finally began to increase, and bankers provided new loans. By the end of 1984, it appeared that financial difficulties were lessening. Trade surpluses were growing as exports soared to the economically-recovering industrial world, especially the US. In addition, interest rates fell, thus further easing Latin America's repayment burden. And austerity measures imposed by IMF strengthened Latin American economies. In short, growth started to pick up.

Unfortunately, the old....

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Unfortunately, the old problems came back in 1985. Economic growth in the industrial nations -- and particularly in the United States -- which had fueled the Latin American export growth in 1984, once again declined. Commodity prices fell in some cases to the lowest levels in decades. Increasingly, protectionism blocked exports.

Even oil producers like Mexico and Venezuela were not immune. They thought that the rising oil prices of the early 1970s was a "permanent trend." For this reason, they lavished huge sums on social programs as well as on economic development. Like everyone else, they were caught by surprise by the world oil glut and steady decline of prices. But unlike Saudi Arabia and the Gulf States, these countries had no cushion of savings to fall back on when over-production forced price cuts.

As a result, 1986 looms as another economically difficult year for the region. Argentina and Mexico may well experience a drop in GNP of 2-3 percent this year. These economic problems could easily lead to serious political and social instability and the growth of radical movements, there and elsewhere.

As many of you know, Castro is already trying to capitalize on these problems by publicly urging Latin American debtor nations to refuse to pay their debts. Castro has sponsored a series of debt conferences in Havana to spread the word, and thus create problems and embarrassments for democratic governments. For the moment, his pleas are falling on deaf ears because Latin American political leaders recognize that Castro

is trying to exploit....

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is trying to exploit issues for his own ends. Nonetheless, Castro has highlighted a sensitive political issue that puts governments throughout Latin America under considerable popular pressure.

I am happy to tell you that the US Government is trying very hard to help our sister governments throughout the hemisphere meet these serious economic problems. Last October Treasury Secretary Baker announced a new plan, "Program for Sustained Growth," to establish a workable strategy for dealing with international debt. The program calls for debtors to adopt free-market reforms to strengthen economies and lay the foundation for renewed growth, for the World Bank to support structural adjustments of economies where required, and for commercial banks to increase lending.

Thus far, Latin American debtor countries have welcomed the US initiative. From their perspective, they see the plan as a sign that the US recognizes the real need of debtors to restore economic growth and obtain new development capital.

Now the task for US intelligence is to closely monitor the economies of key Latin American countries with special attention to their ability to make debt repayments -- as well as to the political and social repercussions of their financial difficulties -- in order to assess any adverse impact on our national security. <u>The stakes are large!!</u>

A major consideration here is that American commercial banks have a major exposure in Latin America. By mid-1985 US banks had lent almost $100

billion to Latin America....

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billion to Latin America. As you are no doubt aware, default could seriously hurt some US banks, and would injure the US banking system generally.

Perhaps even more importantly, though, the inability of these countries to honor their debt repayment agreements would also have a strongly negative impact on sustaining economic recovery in the industrial world. LDC's are important customers for industrial nations' products, but financial strains and rigorous austerity programs would again force them to curb imports, especially of US goods.

I mentioned a moment ago that there is a close connection between economic stagnation in Latin America and the growth of political radicalism and its two ugly manifestations: insurgency and terrorism. Indeed, the spread of these problems in Latin America during the last five years has been alarming.

In several Latin American states, small numbers of revolutionaries -- disdainful of the electoral process and unable to win popular support through the ballot box -- have succeeded in subverting the climate of opinion from one that respected parliamentary debate into one that encourages blows and counter-blows, violence and counter-violence. This has resulted in gradual weakening of parliamentary institutions and democratic processes in several countries.

As we speak, there are leftist-backed insurgencies -- occasionally punctuated by acts of wanton terrorism -- active in Peru, Chile, Colombia, El Salvador,....

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Colombia, El Salvador, and Guatemala, and several island nations of the Caribbean.

Radical groups see in terrorism the potential for obtaining concessions from established governments that can never be obtained by traditional political means. One common terrorist objective is to provoke a violent reactionary response and thus discredit political moderates and alienate people from their government. Such a motivation was behind the recent bloody seizure of the Palace of Justices in Colombia. If the decision-making process can be disrupted, confidence in the workability of democratic institutions can be eroded, and -- unless Latin American governments deal effectively with terrorism -- their stability will be seriously weakened. Polarization is a desired goal of Chilean terrorists, especially.

Terrorist methods are becoming increasingly sophisticated. Assassinations and seizures of hostages for maximum impact on audiences in target countries are two favorite means used by terrorists to draw media attention to their cause. Moreover, nowadays, many of the risks associated with terrorism are greatly diminished by the involvement of outside governments in the financing, training, documentation, and providing of safehaven for terrorist groups.

With help from a sponsoring state like Cuba, Nicaragua, or Libya, these terrorist groups are able to use more sophisticated techniques because of state-funded training programs, and more violent, more deadly, more

difficult-to-detect....

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difficult-to-detect equipment and arms. They also receive intelligence, and get official travel documents, which they sometimes use as diplomatic cover to hide their true identities. This support makes it easy for terrorists to mask their movements and munitions deliveries -- and then find safehaven in the sponsoring state after an attack. So the backing of radical governments enormously escalates the scope and power of this growing threat.

Part of the potent subversive threat we face in Central America is stimulated by outsiders who are well-versed in terrorism. For example, Italian Prime Minister Craxi [KRAHK-SEE] stated early last year that Nicaragua hosts 44 of Italy's most dangerous terrorists. His statement is corroborated in part by a former Red Brigade terrorist who said that at least six of his former comrades now serve as non-commissioned officers in the Sandinista army.

Parenthetically, I'd like to add that Nicaragua receives substantial aid from Qadhafi's Libya and played host to Iranian Prime Minister Musavi [MOO-SAH-VEE]. For those of us in the intelligence business, it is not surprising that the same names and faces keep turning up whenever we look broadly at the subject of international terrorism.

Clearly, the Soviet Union and its allies have grasped the enormous potential of terrorist movements and insurgencies for disrupting societies, particularly in the Third World. Clearly, they have recognized that in Africa, Asia, and Latin America there are many weak

governments with low....

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governments with low levels of political legitimacy and high levels of instability. To a degree far greater than is generally realized, some Latin American governments are vulnerable to disruptions by terrorists or insurgents and are, therefore, tempting targets for leftist campaigns.

In providing terrorist movements with arms, training, and political support, the Soviet Union and its allies, the radical states, have discovered a highly cost-effective way of making the point that in today's world, it is not safe to practice democracy.

I'd like now to turn briefly to the rather murky area of collusion between the drug producers and narcotics traffickers and the terrorists, leftist guerrillas, and their backers.

Drug dealers see their interests as being the corruption and manipulation of an established regime -- such manipulation to include the buying of policemen, security agents, judges, members of parliament, and even premiers. Money is the means and also the objective for narcotics pushers.

Terrorists and insurgents, on the other hand, are out to destroy the existing system. If they had their way, they would not corrupt the policemen and judges -- they would kill them. Moreover, money is useful for buying weapons, paying operational expenses, and buying intelligence and other information. The terrorist or insurgent is, above all, ideological. He is committed to overthrowing the established regime;

that is his objective....

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that is his objective. He needs money to do this, and narcotics dealers can provide the money.

This said, there is a degree of cooperation between some terrorists and narcotics traffickers for at least tactical reasons. For example, a symbiotic relationship has grown up in Colombia between narcotics dealers in jungle areas and along the Caribbean coast and the leftist Revolutionary Armed Forces of Colombia. Neither group, ordinarily, would have much to do with the other. But the drug merchant needs a secure transit point for his goods to reach the US markets. One such transit point is Cuba and the waters around Cuba. And the terrorists need arms.

In the past, the Cubans funneled arms and money to the guerrilla groups through the drug merchant channels, so there is compatibility and complementary interest. Although Fidel Castro loudly denies having dealings with drug merchants when speaking with American journalists, in fact we've caught him red-handed. By helping drug dealers push cocaine and marijuana, Castro gains improved access to the Cuban community right here in South Florida, contributes to crime and disorder in the US, and aids his revolutionary offspring in Colombia.

Since we're on the subject, I would now like to direct your attention to broader Soviet-Cuban moves in the Caribbean and Central America.

You are all undoubtedly familiar with the fact that in July 1979 a popular revolution overthrew the Somoza dynasty in Nicaragua. There is

no question that....

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no question that this revolution was supported widely throughout Nicaraguan society at the time. What you may not know, however, is the extent to which the "popular" nature of the revolution was subverted by pro-Cuban and pro-Soviet elements within the Sandinist National Liberation Front. Sandinistas now have a monopoly on power in Nicaragua, and have essentially replaced the Somoza dictatorship with one that is every bit as repressive.

From the perspective of the US, really only one thing has changed and that is Nicaragua's orientation in the protracted struggle between the US and the Soviet Union.

I could go on at some length about the repressive nature of the Sandinistas and the remarkable parallels that exist between the events following the Sandinista seizure of power in 1979 and those events which took place in Castro's Cuba twenty years earlier.

But my main point this evening is to impress upon you the nature of Nicaragua's threat, as we see it, to its immediate neighbors, and ultimately to the United States.

The key to the problem is Nicaragua's incredible military build-up -- a build-up that was not possible without Soviet and Cuban arms deliveries of massive proportions. You may be surprised to know that Nicaragua has more troops and equipment than all the other Central American countries put together!

Not to bore you....

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Not to bore you with statistics, but you should know that they have not only the strongest, but the best-equipped military forces in the region. The Sandinist People's Army currently has an active strength of some 65,000 and a fully mobilized strength, including militia and reserves, of nearly 120,000. These forces are equipped with Soviet tanks, armored vehicles, state-of-the-art attack helicopters, coastal patrol boats, and an increasingly comprehensive air defense system. This gives the Sandinistas a military capability far beyond that of any other Central American nation.

Today, Cuban and Nicaraguan military forces together are four times the size of those of Mexico and they are equipped with vastly superior weapons. Today, with armed forces larger and better equipped than the rest of Central America combined, Nicaragua could walk through Costa Rica, which has no army, to Panama. Cuba could threaten our vital sea lanes in the Caribbean, thereby seriously impairing our ability to reinforce NATO and Europe if we had to.

In addition to military hardware in Nicaragua, there are now an estimated 6,000-7,500 Cuban military and civilian advisors and several hundred other Communist and radical Arab personnel who are assisting the Sandinistas in their military build-up and consolidation of power. Under Cuban direction and guidance, the Sandinista security service helps the regime establish control over the media, create and spread propaganda and disinformation, and neutralize or expel those who oppose the Sandinista dictatorship.

Over the past year,....

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Over the past year, the American Intelligence Community has unanimously concurred in five National Estimates on the military build-up in Nicaragua, the Marxist-Leninist consolidation of political power, and the strategic objectives of Soviets, Cubans, and Sandinistas in Nicaragua and Central America and the prospects of possible insurgency.

If I boiled the many intelligence judgements in these documents down to a single sentence, it would be this: The Soviet Union and Cuba have established and are consolidating a beachhead on the American continent, are putting hundreds of millions of dollars' worth of military equipment into that beachhead, and have begun to use it as a launching pad to carry their style of aggressive subversion into the rest of Central America and elsewhere in Latin America.

On top of that, we see Nicaragua becoming to Central America what Libya is to the Middle East -- the focal point for international and regional terrorism. Managua's support for the training of Central American subversives is well documented -- they support Salvadoran Communists, Guatemalan Communists, radical leftists in Costa Rica, and radical leftist terrorists in Honduras to promote revolutionary violence there. More recently, we have observed some Nicaraguan support for several South American terrorist groups and development of contacts with other international terrorist groups.

At this point,....

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At this point, let's ask ourselves what all this means -- the economic reversals, the urban unrest, the upsurge in terrorism and insurgency, and the massive Soviet-Cuban sponsorship of subversion throughout the region.

In my view, there are several implications.

First, if the economic situation worsens, political instability aggravated by economic dislocation could weaken some governments to the point of collapse. Certainly it will spawn or aid the growth of radical movements and groups. The Soviets and Cubans are sure to exploit this.

Second, the weakening of confidence in democratic institutions will make it easier for terrorists and insurgents to coerce established governments and, perhaps, even to seize power in some capitals and foment coups. America's influence, strategic interests, and commercial stake in Latin America could be jeopardized in an increasingly chaotic region.

Third, the growing Nicaraguan military capabilities enable the Soviets and Cubans to threaten the Panama Canal in the short term and Mexico in a somewhat longer term.

Fourth, Cuba will renew its efforts in the Caribbean islands to develop clients like the ousted Maurice Bishop regime in Grenada. This will be made easier by endemic poverty in the Leeward [LEE-WERD] Islands, and soft aluminum prices that will undercut the Jamaican economy.

Fifth, the Soviets....

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Fifth, the Soviets are likely to use arms deals and aid packages to buy influence with certain South American countries. US policy, as you know, is to discourage arms sales to economically vulnerable countries.

The Soviets, on the other hand, offer arms on unusually favorable terms in order to curry favor. They are not concerned if the buyer cannot feed its own people before buying weapons.

Sixth, if the debt problem is not resolved soon, it could become an irreversible slide into bankruptcy and default that would shake the US banking system. There is a great danger to US lenders who continue to lend money solely to ensure that immense debts are classified as "producing." This causes US dollars to be drawn into a financial "Black Hole" from which there may be no return.

Seventh, drug pushers will make a greater effort to ship narcotics to the US from Mexico, Colombia, Peru, and Bolivia despite those governments' efforts to combat the flow. The drug trade is now a $50 billion illegal industry which siphons money away from legitimate investment. Also, narcotics trafficking indirectly aids leftist guerrillas and terrorists.

And, lastly, I would like to mention the plight of the refugees. Every country that has fallen under Communist control since World War II has sent refugees streaming over its borders. In the late 40s and early 50s millions of refugees fled from the Soviet-occupied countries of Eastern

Europe. Then, in the....

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Europe. Then, in the 1960s, we witnessed a refugee flow from Cuba. And more recently the refugee flow was stimulated by Communist tyranny and disorder in Vietnam and Afghanistan. But the potential influx from Central America is even higher than from any of these.

Since 1980, some 200,000 Salvadorans have fled Communist-initiated violence and entered the US illegally.

Illegal movement from Mexico has increased, with some one million Mexicans illegally entering the US in 1983 alone. In 1984, the Bipartisan Commission on Central America -- which Henry Kissinger chaired -- warned that a Communist Central America would likely be followed by the destabilization of Mexico. This could result in many millions of additional Mexicans fleeing into the US.

The future for Latin America does not look bright. Yet, with courage and understanding of Latin America's many problems, and the willingness of US business to help where it can, there may be hope.

For if we do not act soon, events will take their own course, and the security of our country and our hemisphere may be damaged beyond repair.

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